

Issuance of second energy sukuk being planned

ISLAMABAD: Power Division is likely to rebid for Pakistan Energy Sukuk (PES) –II of Rs 200 billion after eyebrows were raised by some of the stakeholders on the price being offered by a consortium of Islamic banks, well-informed sources in Finance Division told Business Recorder.

The government is planning to issue second PES aimed at minimizing circular debt, which, according to the Chairman Nepra, is over Rs 1.9 trillion.

Sharing details, sources said a meeting was held in the Finance Division on February 27, 2020 scheduled to be chaired by the Finance Secretary, Naveed Akram Baloch, however, due to his numerous other engagements, senior Joint Secretary (CF-II) was advised to preside over the meeting. The meeting was attended by senior representatives of State Bank of Pakistan (SBP), Securities and Exchange Commission of Pakistan (SECP), Power Division and Director General Debt.

According to sources, Chief Financial Officer (CFO) informed the meeting that the bidding process was followed in view of the audit observations on Pakistan Energy Sukuk-1. The draft advertisement was approved by Board of Directors (BoD) of PHPL.

The representative of SECP and SBP pointed to rule 6 of the Pakistan Energy Sukuk Rule 2019 which states that “the Sukuk should be sold to the MLAs, as per Sukuk terms and conditions, agreed between the company and MLA.” However, as the Economic Coordination Committee (ECC) of the Cabinet had decided to raise the requisite financing through competitive process, the rules are required to be amended.

Senior Joint Secretary, Finance Division, added that the issuance of Sukuk-II against GoP guarantee was not possible due to non availability of guarantee space, highlighted during negotiations with the International Monetary Fund (IMF). However, on availability of space, the transaction was required to be made in two tranches.

The DG Debt told the meeting that amendment of Rules at this stage would not be possible due to paucity of time. He showed his concerns about the pricing of the Energy Sukuk-II and pointed out that the earlier issue - Pakistan Energy Sukuk-I(PES-I) – was being sold in the secondary market on premium. He further stated that the question before the forum is whether the processing of bidding has provided a fair opportunity to all stakeholders in the market or otherwise.

According to representative, PES-I is being sold on premium in the secondary market which implies that fair pricing of PES-II has to be ensured, adding that the pricing of Sukuk can be far lower than the presently offered pricing of Kibor+78 if multiple bids would have been called for. By issuing Sukuk at this high price would provide an opportunity to the Islamic banks to sell the product in the secondary market for a handsome profit.

The representative of SECP while adding to the views of SBP stated that the government should promote capital market and this is an opportunity to do so.

“If competitive bidding would have been made, mutual fund, pension fund and other such funds would have been able to invest in these prized assets, i.e., PES,” he said arguing that if PHPL were to repeat the bidding process by calling multiple bids instead of a single bid for the whole amount, it may restrict the value of single bid to a certain amount.

It was further proposed that 80 per cent of the amount could be offered through competitive bidding and the remaining 20 per cent can be offered on pro-rata basis. Referring to the time constraint apprehensions of Finance Division, the SECP representative suggested to go for bridge financing for two months and to meanwhile complete the process.

The sources further stated that it was pointed out during the meeting that Mutual Fund Association of Pakistan (MUFAP) has raised their concerns about calling bids from banks for participation in PES-II. Banks have formed a consortium as they have the ability to underwrite or subscribe to the entire issue size of Rs 200 billion and have flatly refused to allocate any amount to mutual funds.

The meeting decided that Power Division/ PHPL may consider the matter of repeating the advertisement and bidding process in the meeting of PHPL BoD. After due diligence amongst the stakeholders, it has reportedly been decided to go for rebidding to get better price.